



CITY OF INGLEWOOD

OFFICE OF MAYOR JAMES T. BUTTS, JR.



DATE: April 16, 2019

TO: Inglewood City Council

FROM: Mayor James T. Butts, Jr.

SUBJECT: Public Hearing - Housing Protection Initiative (Ordinance 19-07)

RECOMMENDATION:

It is recommended that the City Council conduct a public hearing to receive additional information and public comments regarding the Inglewood City Council March 5, 2019 adoption of Housing Protection Initiative - Ordinance No. 19-07 (Emergency Ordinance Imposing a 45-day moratorium (with the option to extend for an additional ten (10) months and 15 days (total of one-year)) limiting rent increases to 5% per year on certain residential properties within the City of Inglewood) and take the following actions:

1. Introduce and adopt an Ordinance extending the Moratorium for an additional 60 days; and
2. Direct the City Attorney to draft an ordinance for City Council approval that provides for:
 - a. Adoption of a cap on annual rental increases (considering any increase given since January 1, 2018).
 - b. Limiting annual rental increase to once in a 12-month period.
 - c. Establishment of a relocation allowance program for increases exceeding 4%.
 - d. Establish a Just Cause Eviction Policy for the City of Inglewood.

BACKGROUND:

On March 5, 2019, the Mayor and Council Members directed the City Manager to provide a comprehensive report on rent rates as they pertain to Inglewood and the region. The purpose of this report is to give the City Council information and recommendations to assist them in developing a Housing Protection Ordinance whose purpose is to maintain housing options for Inglewood residents in the face of a rental market that is rapidly bringing Inglewood to market rate rents. This policy should be designed to be fair to both renters and owners alike.

Rental rates in Los Angeles County (County) are continuing to rise; and although the City of Inglewood (City) still has lower rents than comparably sized cities in the region, the ability of some residents to pay significantly increased rent is in question.

- Orange County rents are projected to rise 3 to 3.6 percent in 2018, according to apartment data firm RealPage and the USC Casden Multifamily Forecast.
- Los Angeles County apartment rent will rise 3 percent, both forecasts show.
- Inland Empire apartment rents will rise faster: Up 4.1 percent to 4.4 percent, according to the two forecasts.
- Most Southern California apartments will be full. Vacancy rates in the region will be around 3.5 to 3.6 percent, according to RealPage.¹

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¹ Orange County Register March 28, 2019; "2018 house prices and rents will keep growing with no end in sight, economists say"

The City has constructed an internet survey to allow residents to report rental increases over the past year. The City also used various social media platforms (Facebook, Twitter, and Instagram) to direct residents to the survey. As of April 11, 2019, there were 20 unique submissions ranging from 2% to 138%. The Mayor negotiated some submissions with the property owners to reduce the proposed rent increase and provide relocation allowances. Two buildings' increases were modified with conditions extremely favorable to the tenants. After these reductions, the average increase for all submissions was 43%. The effect of rising rents, coupled with stagnant incomes, which are 13% lower than the median household income for renters in Los Angeles County, has caused many households to pay more than 1/3 or more of their disposable income on rent. The number of families who would qualify for affordable housing outnumbers the amount of available, affordable housing units.

The City of Inglewood has a vigorous history of supporting and providing affordable housing for Inglewood residents. Though we are the largest provider of affordable housing in the South Bay, the Council is determined to continue to explore methods to maintain affordability in Inglewood without penalizing *Mom and Pop landlords*. This effort has spanned four decades, and at present, the City maintains a total affordable housing stock of 3,038 units, consisting of 2,846 rental units and 192 active loans for first-time homebuyers. Offering assistance to transition from renting to homeownership is another City strategy. On August 21, 2018, the City Council approved \$2 million for a *First Time Homebuyer Program*. There will be an informational workshop on Monday, April 22, 2019, in Community Room A, at Inglewood City Hall (One Manchester Blvd First Floor) for persons interested in the program.

DISCUSSION:

The rental market nationwide is extremely tight; some renters are feeling very vulnerable as a result of surging rents. Oregon has enacted a statewide Rent Control law. One owner of approximately 240 buildings in Oregon states "The solution to rising rents, is to make it easier to build decent and affordable housing by eliminating multiple layers of fees and regulations."²

Additionally, long before the reopening of the Forum and the speculation of the return of the NFL to Inglewood, housing prices in the County grew four times faster than incomes since 2010. The rent increase phenomenon predates any discussion of the reopening of the Forum or discussions between the Mayor and the NFL regarding the potential of building a stadium in Inglewood (our interest was announced January of 2015). Inflation-adjusted median rent in Los Angeles County grew by nearly 25% between 2000 and 2012, while inflation-adjusted incomes declined by 9%, according to California Housing Partnership Corporation. The effect of rising rents, coupled with stagnant income, has generated an increase in "rent-burdened" households. (Rent burdened households are households that pay more than 30% of their income on rent.)³

According to the Consumer Price Index, tenants in Los Angeles and Orange counties were hit with the fastest rate of rent inflation in 11 years. Among two dozen metro areas tracked by the Bureau of Labor statistics, Los Angeles and Orange counties are just ahead of Atlanta's 5.2 percent and San Diego's 4.9 percent increases.

Just recently, Governor Newsom signed an unprecedented executive order to spur housing production for

²New York Times Feb. 25, 2019 "Is your Rent Through the Roof; Oregon Wants to Fix That"

³ California Housing Partnership Corporation

4. Governor Newsom: gov.ca.gov/2019/1/15/housing-affordability/crisis

families. Newsom's Housing proposals are a central pillar of his agenda "California for All." This order will attempt to tackle the affordable housing crisis for California families.

The budget allocates \$500 million for incentives for localities that create new housing and \$250 million to provide technical assistance to cities and localities to responsibly ramp up zoning and permitting processes. The budget also invests in housing solutions for the "missing" middle class that too often cannot find affordable housing near their jobs. This includes \$500 million for tax credits and \$500 million for home construction.

➤ **Newsom's order outlines:**

- Affordable Housing on state land
- \$1.75 billion in new housing production dollars
- Collaborating with Legislature for policies on out-of-control rent increases

The Executive Order signed by Governor Newsom directs the Department of General Services to take an inventory of all state-owned lands for potential development no later than April 30th, 2019.

The City of Inglewood survey response revealed a few significant rental increases in Inglewood (some of which exceeded 100%). The factors leading to the highest increases were linked to the purchase price of the building and needed deferred maintenance. This maintenance is necessary to provide upgrades to maintain the safety, sanitation, and livability of the property. The Mayor and Council respect and cherish Inglewood's renter population, and want to provide stability and support for these residents. They are Inglewood families that call our City home. The other side of the rental equation is constituted by the landlords. Landlords (owners) must cover mortgage payments, maintenance of the property, capital improvements. In most cases, they pay for collective utilities and trash services. In addition to covering costs, the owners are also deserving of a fair return for renting the properties. For the vast majority, rental income is the sole family income and for others, a business in addition to their 9 to 5 employment. The other rental contingent consists of investment companies.

Rental Capitalization Factors (CAP)

Landlords measure the quality of their investment by the Cap Rate. Cap rate means the Capitalization rate; a return on investment measurement of rental properties. It consists of two main factors; net operating income, and current market value. The City contemplates placing a maximum limit on the annual increase in rents in a single 12 month period of 8% (increases over 4% triggers the option for renters to accept a Relocation Allowance). This is consistent with the guidelines set forth by the State of California Department of Consumer Affairs. Depending upon a number of factors, this limit set by the City may result in a negative capitalization rate for housing providers in some instances. It is, therefore, necessary for the Council to craft an ordinance that allows flexibility for owners both new and long-time to receive a fair return on their investment. Such an ordinance will allow for an increase greater than the 4% threshold while providing economic options for our residential renters.

There is great disagreement on how to construct a protection matrix to stabilize rents. For brevity purposes; attached are two of the most recent studies available with data that argue points on both sides of the issue. Stanford University conducted a study in December 2018 called "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco the Unintended Negative Impact from Rent Control," (**Exhibit 1**) and Berkeley University Haas Institute reported in 2018 "Opening the

Door for Rent Control.” To get a quasi-experimental variation, Stanford combined new panel micro data on individual migration decisions with detailed assessor data on individual SF parcels on rent control at both the individual tenant level and the parcel level. **(Exhibit 2)**

➤ Per Stanford-Renters/Landlords

- Renters on average are medium to long term beneficiaries of rent control and between 10 and 20% are more likely to remain at their 1994 rent control address.
- Rent Control on tenants had the greatest positive impact on minority populations
- Rent Control allowed more minority residents to remain in the San Francisco area
- Landlords of properties impacted by rent control responded by transitioning their investments to other types of real estate; converting apartments to condos, and redeveloping buildings to exempt their properties from rent control
- Landlords reduced the supply of available rental housing by 15% due to the imposition of Rent Control
- Over the period studied there was a 25% decline in the number of renters living in units protected by Rent Control
- The reduction in rental supply because of conversions ultimately increased rents in the long-run.
- Rent Control contributed to gentrification (largely by condo conversions).

➤ Haas Institute

- Rent stabilization is far beyond just cities implementing an ordinance; it extends to policies being created by legislators for people and not units to stabilize communities
- Rent control allowed nearly 20% of families to stay in their existing homes in San Francisco
- Preserving existing affordable housing, and producing more housing does not mean one or the other; it simply means California needs both for a long-term solution and stabilizes communities
- There are other factors that contribute to the increase of rent; the rise in cost for air quality, schools, public safety, and other improvements have increased property value, as well as rental increases.

RECOMMENDATIONS

Proposed Rent Increase Limitations

The State of California law states that landlords must issue a thirty-day notice if the rent increase is ten percent, or less, of the rent, charged any time during the 12 months before the rent increase takes effect. A sixty-day notice is required if the rent increase is greater than ten percent.

Based on some of the guidelines set forth by the State of California Department of Consumer Affairs; it is recommended that a rental increase **cannot exceed 8% (EIGHT PERCENT)** in one year or in any 12 month period. Only one rental increase of any amount will be allowed in a 12-month period. It is recommended that any increase issued after January 1, 2018, be considered the allowable increase the day the new ordinance becomes effective. The Mayor further recommends that tenants that have lived in their dwelling for nine months or more; and receive a rental increase exceeding 4% (FOUR percent); be entitled to Relocation Assistance upon receiving notice.

The Costa-Hawkins Rental Housing Act; is a state law enacted in 1995, states that local rent-control regulation does not apply to single family homes, condominiums, and units built after February 1, 1995. It also allows “Vacancy Decontrol” meaning once a tenant vacates a “rental control” unit the landlord has the right to raise the rent to market rate.

It is unclear whether any dwelling unit that is the recipient of project-based rental assistance programs (Section 8 for example), housing projects or senior housing, where rent is subsidized or regulated by another or government agency or authority would be exempt from our Housing Protection Ordinance. Our belief is that most if not all parameters would apply. The relocation allowance would definitely apply.

Just Cause Evictions

Adopting the Just Cause ordinance restricts and enforces only the allowable reasons for evictions. Allowing reasonable consideration for this component forces property management groups, both small and large, and landlords to show cause for the eviction. Activating this policy places the burden of proof of eviction on the landlord, as opposed to the tenant, and without proof of cause, the tenant has a right to contest the eviction.

However, the “Just Cause” verbiage proposed by the Mayor and Council, does not supersede the State of California Department of Consumer Affairs; “Tenants and Landlords Rights and Responsibility.” **(Attachment 3)** Landlords “With Cause” can terminate the tenancy by issuing a three-day notice.

Termination of Tenancy “With Cause”

- Failure to pay rent
- Violating any provision of the lease or rental agreement
- Materially damaged the rental property
- Substantially interfered with other tenants (“committed a nuisance”)
- Committed domestic violence or sexual assault against, or stalked another tenant or subtenant on the premises
- Used the premises for an unlawful purpose
- Engaged in drug dealing, unlawfully used cultivated, imported, or manufactured illegal drugs
- Using the building to conduct dogfighting or cockfighting
- Unlawful conduct involving weapons or ammunition

The adoption of “Just Cause” verbiage will provide and reinforce a stronger layer of protection for the residential renter population.

➤ Terminating of Tenancy “Without Cause”

- Housing Protection
- Limits the landlord’s options to evict and therefore opportunities to raise rents to market rate
- Stabilizes community and School Districts
- Protect the seniors, elderly, families with disabilities and family with children
- Design for the eviction process to be carried out through the court system and not the City

Adoption of “Just Cause” verbiage will help preserve social and economic diversity and stabilize communities and school districts. It is understood; that Policymakers should not assume that a positive and fair resolution will exist between tenants and landlords. The proposed “Just Cause” verbiage can be a stand-

alone ordinance aside from Housing Protection Ordinance that serves as a protection from unilaterally being evicted.

This report contains research and material from two different sources that demonstrate cases studies and the effects of “Just Cause Evictions” Urban Habitat January 2018 Strengthening Communities Through Rent Control And Just-Cause Evictions: **(Exhibit 4)** “The Ellis Act passed in 1985 and gave the landlords the legal right to evict their tenants in order to leave the rental business.” The Ellis evictions are mainly used to convert rentals into condominiums. Since the enactment in 1985 of the Ellis Evictions, in 2016 Santa Monica has had 2,123 rental units removed from their affordable housing stock market, as opposed to Berkley, California, where implementation in 1986 had only 431 rental units removed from their inventory. Something to consider; units that are lost through the Ellis Act Evictions are solely based upon the Ellis Act itself and have no connection with rent control.

State law allows a landlord to terminate a tenancy without cause at the end of a lease or for other terms by giving a thirty-day or sixty-day notice. It is important to understand that the “just cause” ordinance retains the State’s noticing timeline, but according to *Management Partners*, who in June 2017, conducted a study entitled *Rent Control and Just Cause* for the City of Fremont. **(Exhibit 5)**; the “just cause” ordinance will require the landlord to provide written cause for the termination and evidence supporting the termination action. Essentially the “just cause” ordinance will provide a limited number of allowable causes for evictions. In most cases, the rules for “just cause” evictions are linked to a strong rent ordinance to protect the residential renters from allowing landlords to evict, for the purposes of obtaining vacancies thereby allowing *vacancy decontrol*.

Few things to consider as a rationale for the adoption of “*Just Cause*” verbiage:

- Has no impact on crime
- Serves as an anti-displacement measure
- Protect Social and Economic Diversity
- We cannot assume that Landlords and Tenants will work it out
- Should be used as one prong of protection, preserve and strategize for affordable housing; although it remains a much broader critical peace.

Homeowner’s Association (HOA)

On the horizon is a deeper concern of potential displacement that disproportionately impacts our senior, elderly, and the mentally disabled that live alone. This category involves the Homeowners’ Association (HOA) communities. HOA’s are designed to manage and maintain the community assets of the HOA; their primary functions are to enforce rules of the community and collect assessments and other fees. Communities are single family homes, townhomes, or condominiums that consist of one parent families with children, moderate-income families with minor children, families with disabilities, and seniors.

HOA has a right to the following:

- To collect fees and assessments
- To enforce rules
- The Power to place a lien on a homeowner’s property (should the owner become delinquent)
- To collect late charges and unpaid assessments
- Reasonable costs (attorney fees)
- Fines

- Interest

Questions that are being asked:

- If a senior has paid off their mortgage and later falls a year behind on their HOA dues, can the management company foreclose and take possession of their property and force an eviction?
- Does the HOA have a fiduciary duty to the community when it comes to the welfare of people; meaning conduct a reasonable assessment before evicting?
- Should extenuating circumstances be allowed for residents living alone; or residents that care for someone sixty years or older; have a physical or mental disability?

The Council may choose to enact an ordinance that schedules hearings for seniors (62 and over), disabled and the mentally ill only (living in HOA's); for the following circumstances, including but not limited to:

- Foreclosures
- HOA fees are in arrears; before exceeding \$1,800.00
- Evictions

RELOCATION ASSISTANCE POLICY MATRIX - (Recommended)

Tenants (Tenant occupied units are defined as dwelling units that are occupied by the tenant as the tenant's primary residence) Tenants must have dwelled in the unit for nine months or more to qualify for Relocation Assistance. Any tenant that is served a 60 day "no cause" termination notice will be entitled to relocation assistance. Payment is due to tenant immediately upon vacating the unit. The matrix is predicated upon approximately 5 times the average monthly rent in the LA area for a comparably sized unit.

Commencing July 1, 2019, and on July 1st of each year thereafter, the amounts of the relocation fees set forth below shall be increased annually by a percentage equal to the percentage increase, if any, of the consumer price index for the Los Angeles/Riverside/Orange County area, as published by the United States Department of Labor, Bureau of Labor Statistics between May 1st of the then current year, and May 1st of the immediately preceding year.

<u>Apartment Size</u>	<u>Relocation Fee</u>
• Studio	\$7,700.00
• 1 Bedroom	\$9,000.00
• 2 Bedroom	\$11, 200.00
• 3 Bedroom	\$14, 600.00
• 4 Bedroom	\$15, 900.00
• 5 Bedroom	\$18, 000.00

Proposed Additional Relocation Fees:

- Disabled , Minor, and Senior - \$2,000
 - Disabled Person, - Any person who is receiving benefits from a Federal, State, or local government, or from a private entity, due to a permanent disability that prevents the person from engaging in regular, full-time employment.
 - Minor - Any household with one or more children younger than eighteen years of age. One allowance only no matter the number of juvenile children.

- Senior - Any person sixty-two years of age or older.
- Five to nine-year residents - \$1,000
 - Five to nine-year residents – As proven by initial rental agreement.
- Ten year plus residents - \$2,000
 - Ten plus year residents - As proven by initial rental agreement.
- Residential Renters that have received 2 or more rental increases, inclusive of any increase after the enactment of the rent increase moratorium (March 5, 2019) within a 12 month period from that date.
 - \$2,000
 - Residential renters that have received two rental increases within a 12 month period if the landlord imposes an increase after the March 5th moratorium enactment date.

RESPONSIBILITY FOR RELOCATIONS FEE – LANDLORD DEFINED

Landlords/Nonpayment of Relocation Fees

The landlord is deemed as any person, partnership, corporation, family trust or other business entity offering for rent, or lease any residential property in this city. The landlord is also known as any person, partnership, corporation, family trust, or other business entity that has a predecessor in interest or successor in interest to that tenancy, as applicable.

The landlord is required to pay relocation to the tenant that is residing in the unit under the above-specified conditions. The landlord is not required to pay relocation to a tenant for “*just cause*” evictions; specified as:

- Unpaid Rent
- Breach of Rental Agreement
- Maintenance of Nuisances
- Illegal Uses
- Refusal to provide access
- Unapproved subtenants

Appeal Process

Landlords may appeal the annual rent increase limit, by providing their net operating income to show that under the cap that they are not receiving a fair return. A landlord must have been an owner providing rental housing at the address for in excess of 7 years. Once the City receives a complete application, the tenant will be notified, and a hearing will be scheduled.

EXEMPTIONS

This ordinance **shall not** be applicable to owners that have voluntarily negotiated a relocation and tenant protection measures with the City of Inglewood prior to the implementation of the temporary moratorium on March 5, 2019. The terms of that agreement shall remain in force. The ordinance shall not apply to single family residences or rental properties of 4 units or less. The City Council could consider allowing an 8% increase in a single 12 month period for a landlord that could prove that their current rent is 80% or less than the average market rent for Inglewood according to Zillow.

FINANCIAL/FUNDING ISSUES AND SOURCES:

There is no fiscal impact associated with this action.

DESCRIPTION OF ATTACHMENTS:

1. Ordinance Extending the Moratorium and Additional 60 Days
2. The Effects of Rent Control Expansion on Tenants, Landlord, and Inequality: Evidence from San Francisco March 4, 2019
3. Haas Institute Berkeley: Opening the Door for Rent Control: Policy Brief 2018
4. State of California; Department of Consumer Affairs; California Tenants, A Guide To Residential Tenants' And Landlords' Rights And Responsibilities Revised July 2012
5. Urban Habitat; Strengthening Communities Through Rent Control And Just-Cause Evictions January 2018
6. Management Partners

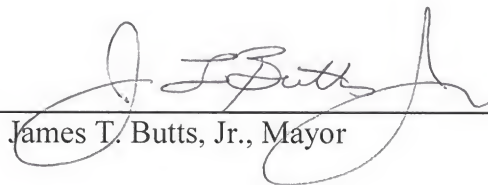
PREPARED BY:

Melanie McDade, Executive Assistant to the Mayor and City Manager
Mayor James T. Butts, Jr.

PRESENTED BY:

Mayor James T. Butts, Jr.

MAYORAL APPROVAL:



James T. Butts, Jr., Mayor

ATTACHMENT NO. 1

1 **INTERIM ORDINANCE NO.: _____**

2 **EXTENSION OF URGENCY INTERIM ORDINANCE NO. 19-07 OF THE**
3 **CITY COUNCIL OF THE CITY OF INGLEWOOD, FOR AN ADDITIONAL**
4 **60 DAYS, LIMITING CERTAIN RESIDENTIAL RENT INCREASES TO NO**
5 **MORE THAN 5% AND REQUIRING JUST CAUSE FOR EVICTIONS.**

6 **WHEREAS**, on March 5, 2019, the City Council of the City of Inglewood adopted
7 as an urgency measure Interim Ordinance No. 19-07 temporarily restricting certain
8 residential rent increases to no more than 5% and requiring just case for evictions; and

9 **WHEREAS**, pursuant to Government Code section 65858(a), Interim Ordinance
10 No. 19-07 shall be of no further force and effect 45 days from its date of adoption, i.e.,
11 April 19, 2019, unless otherwise extended after notice and public hearing pursuant to
12 section 65090; and

13 **WHEREAS**, the City Council directed City staff to present to the Council just
14 cause evictions policy alternatives or an ordinance establishing just cause requirements
15 for evictions; and

16 **WHEREAS**, at the April 2, 2019 public meeting, the City Council heard public
17 comments and received an oral report from the City Manager identifying areas of
18 research regarding Interim Ordinance No. 19-07, which would require an extension of
19 time beyond April 19, 2019; and

20 **WHEREAS**, on April 9, 2019 the City issued a written report regarding Interim
21 Ordinance No. 19-07 that identified the areas of additional research and indicated a final
22 report would be presented on April 16, 2019; and

23 **WHEREAS**, on April 16, 2019, the City Council held a duly noticed public hearing
24 and took testimony regarding Interim Ordinance No. 19-07; and

25 **WHEREAS**, after considering the reports from staff and hearing public comments,
26 the City Council finds that the causes for adopting the interim ordinance have not been
27 alleviated, and that there is a current and immediate threat to the public health, safety,
28

1 and welfare of the City's residents so as to justify an extension of Interim Ordinance No.
2 19-07 for an additional 60 days, commencing from April 19, 2019; and

3 **WHEREAS**, an extension of Interim Ordinance No. 19-07 requires a four-fifths
4 vote of the City Council for adoption;

5 **NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF INGLEWOOD** does
6 ordain as follows:

7 **SECTION 1.** Interim Ordinance No. 19-07, adopted by the City Council on March
8 5, 2019, is hereby extended for an additional sixty (60) days, commencing from April 19,
9 2019. All provisions of Interim Ordinance No. 19-07 shall remain in effect up to and
10 including June 18, 2019.

11 **SECTION 2.** This Interim Ordinance, extending Interim Ordinance No. 19-07,
12 shall be introduced, passed and adopted at one and the same meeting and shall become
13 effective immediately.

14 **SECTION 3.** If any section, subsection, sentence, clause, phrase or word of this
15 Interim Ordinance or Interim Ordinance No. 19-07 is for any reason held to be invalid by
16 a court of competent jurisdiction, such decision shall not affect the validity of the
17 remaining portions of either Interim Ordinance. The City Council hereby declares that it
18 would have passed and adopted both Interim Ordinances, and each and all provisions
19 thereof, irrespective of the fact that one or more provisions may be declared invalid.

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SECTION 4: The City Clerk shall certify that this Interim Ordinance was passed, approved and adopted by the City Council of the City of Inglewood at a regular meeting thereof held April 16, 2019 by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

Yvonne Horton, City Clerk

APPROVED:

James T. Butts, Jr., Mayor